

## Interpretation of Income and Expense in Accounting

**A.Z.Avlokulov,**

Professor, Tashkent institute of finance, Uzbekistan

**D.A.Turumova,**

Teacher, Jizzakh polytechnic institute, Uzbekistan

**Abstract:** In this article discussed the concepts of income and expenses, their recognition and assessment according to international standards. Based on the results of the study, were developed recommendations to improve the information support of income and expenses.

**Keywords:** financial statement, international financial reporting standards, income statement, income, expenses.

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### INTRODUCTION

Today, the main aim of the activities of business entities is to achieve a positive financial result, that is, to get maximum profit. "According to the end of 2018, the annual net profit of the world's 10 largest companies amounted to 312.3 billion US dollars" [1]. This is more than the gross domestic product of dozens of countries of the world. It is important to note that all these 10 companies have accounting and auditing of financial results at the level required by international standards. This situation made it possible for companies to get quick and reliable information about accounting and auditing of financial results and to make important management decisions. This indicates that entering the international market requires determining the features of accounting and auditing of financial results of foreign partners, applying international standards of financial reporting and auditing in them. Therefore, attention is being paid to organization of accounting and auditing of financial results on the basis of international standards. However, companies whose shares are listed on stock exchanges in many countries of the world are required to prepare financial reports based on international standards. The need to organize accounting and auditing of financial results of economic entities operating in various sectors and branches of our country's economy on the basis of international standards increases the urgency of this problem in the current process of globalization.

The results of the conducted scientific research show that many scientific studies are being conducted in the countries of the world aimed at organizing the accounting of financial results on the basis of international standards in the context of the globalization of the economy. In these studies, the issues of recognizing income and expenses, forming financial results in different balance theories, reflecting financial results in accounting according to different concepts, improving accounting information on financial results, applying analytical operations in the audit of financial results, and analyzing profitability indicators have been solved. It should be recognized that the classification of income and expenses, the formation of reporting indicators on gross income, the improvement of the reliability of accounting information regarding financial results, the determination of profitability indicators, the application of importance and risk levels in audits,

and the improvement of the quality of financial results audit have been achieved in the direction of research. However, important issues related to the organization of accounting and audit methodology of financial results at the level of international standards have not yet been positively resolved.

### **LITERATURE ANALYSIS**

When talking about financial results, income and expenses, it is permissible to dwell on its nature and views of economists.

According to Zuca Marilena and Tinta Alice “profit or income, is the money expression of gain as an activity result, and the main idea to generate profit is a lucrative economic activity. The level of results represents for any manager a way to measure efficiency. Results are reflected by profit and loss account that explains how they are obtained for each activity type, and how decisions are made at management level in order to coordinate the entire firm activity” [2].

Zarah Puspitaningtyas, Akhmad Toha and Aryo Prakoso said that, “at the semantic level, understanding the concept of profit is not only materially defined, where profit is interpreted only operationally as a result of the comparison between income and expense” [3].

According to David Procházka “the evaluation of company’s performance and financial health cannot be processed without investigating the source, nature, amount and timing of reported revenues. However, the complexity of business environment makes it difficult to determine when to recognise revenue and how much” [4].

A group of economists came to the conclusion that “asset growth describes the growth of manufacturing company assets that will affect its profitability, which believes that the percentage change in total assets is a better indicator in measuring growth in manufacturing companies” [5].

The results of the conducted research show that different approaches have been formed by economists regarding financial results, income and expense indicators.

### **ANALYSIS AND RESULTS**

Achieving economic efficiency in the economic entity, an important task in its development, it is necessary for the management to master the methods of effective management of income and expenses in operational, financial and investment activities. Effective management of profit formation involves the creation of an organizational and methodological system of the management process, knowledge of the main mechanisms of the profit formation process, the use of modern methods in its analysis and control.

An important aspect of the formation of the report on financial results is the amount of indicators that are intended to satisfy the needs of users reflected in it. An increase in the number of these indicators provides users with more information, while revealing the conditions of their occurrence. Reducing the number of indicators makes them easier to read, but gives less information and does not fully reveal the conditions for the formation of profits and losses.

Today, attention is paid to information transparency and accessibility for all. Therefore, the structure of the report on financial results is based on the classification of income and expenses by activity. This approach to the formation of financial performance reporting indicators is typical of all developed countries. But the main issue in the formation of the report is the size of the presented indicators.

“Income” and “expense” categories are fundamental accounting concepts. These categories are important for achieving the main goal, increasing the volume of financial results and making management and economic decisions for the users of the report.

Income and expenses are classified and interpreted differently based on the requirements set in different systems. National accounting standards and international financial reporting standards

have different definitions of income and expenses.

This can be observed from the table below (Table 1).

**Table 1**

**Interpretation of income and expenses in accounting<sup>1</sup>**

Normative legal document	The concept of “income”	The concept of “expense”
“Conceptual framework for preparation and presentation of financial statements” NSA Uzbekistan [6]	Income is an increase in assets or a decrease in liabilities during the reporting period	An expense is a decrease in assets or an increase in liabilities during the reporting period
Conceptual framework for financial reporting [7]	Income is increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants	Expenses are decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants

As can be seen from Table 1, the national accounting standard and the international financial reporting standard define the concepts of “income” and “expense” almost identically. Only the international standards of financial reporting clearly state which factor changes in assets and liabilities represent income or expense.

The main task of reflecting income and expenses in accounting is to determine their amount. Uncertainty of business transactions affects the impartiality and accuracy of the assessment of income and expenses. This is expressed by the time of recognition of income and expenses and the distribution of accounting information on income and expenses between reporting periods.

As you know, each transaction has its own recognition criteria. When determining the situation, it is necessary to apply the recognition criteria to individual elements of the transaction. For example, if the selling price of a product includes a certain value for the provision of services after the sale, this value is recognized as income from the main economic activity during the period when the service is provided. Conversely, the recognition criteria apply to two or more transactions whose outcomes are related to actuality when the transactions are viewed as a series of transactions.

It should be noted that the main conditions for the recognition of income and expenses in the conditions of uncertainty are their reliable assessment and adherence to the principle of prudence at the time of recognition. Here, the principle of prudence means that there is a possibility of economic benefits related to the transaction, as well as that the realized or expected expenses related to the transaction are reliably determined.

Based on the above, it should be noted that it is advisable for business entities to follow the principle of prudence when reflecting income and expenses in accounting.

## **CONCLUSION**

1. Financial results are important not only in accounting, but also in the management of the entire business entity. If the financial results are determined in accounting, they are analyzed in the analysis and control system. In the management system, management decisions are made based

<sup>1</sup> Made by authors.

on financial performance indicators. In order to make effective management decisions, it is necessary to correctly determine the financial results in accounting.

2. It is known that one of the main functions of accounting is to provide information. Financial performance accounting information is the most important link in providing the management of an economic entity with accounting information, and the indicators of financial results presented in the financial report serve as a basis for making management decisions for various groups of users. Under the conditions of the market economy, economic entities have to work in a state of instability and uncertainty, under the influence of periodic changes. At the same time, the processes of integration into the world economy and globalization will inevitably lead to an increase in the number of participants in international relations, strengthening the mutual relations between them and complicating the mutual relations. In this way, it is necessary to adapt the information-analytical supply system to the current conditions of economic development in the management of economic entities.

3. The integration of the economy of our republic into the world economy requires the transition to international standards of financial reporting. In recent years, a number of legal documents have been adopted in our country regarding the application of international standards of financial reporting. Therefore, in improving the accounting of financial results, it is necessary to make wide use of the requirements of the IFRS №15 “Revenues from Contracts with Customers”, which put into practice worldwide since January 1, 2018. This standard promotes new approaches to revenue recognition and valuation. Wide application of the requirements of this standard will increase the opportunity for foreign investors to correctly interpret the information on the financial results report and obtain accurate information about profits and losses.

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